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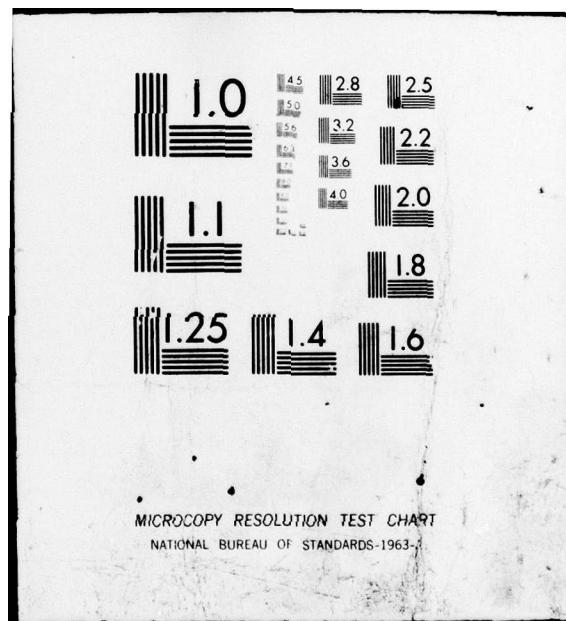
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ECONOMIC GROWTH IN MEXICO: SUMMARY VIEW

Presented to the conference Mexico and the  
United States: the Next Ten years. American  
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⑪ 19 March 1976 / ⑫ 11

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1. The purpose of this paper is to bring up to date and amplify the analysis of the structure and growth of the Mexican economy, which in my earlier work (Reynolds, 1970) covered the period through the mid 1960s. Since then many changes have taken place in the Mexican economy, and a number of new works have appeared, by no means all of which can be touched upon here. The following points are presented as a framework from which to examine the economic dimensions of policy space within which the next two sexenios of the Mexican government will be likely to operate. The relationships between these economic constraints and the demands for social policy that the governments may be expected to receive will be discussed briefly. Implications for Mexican policy as well as for U.S./Mexican relations will be drawn from the foregoing.

2. The economic dimensions of policy space. Governments in an ideal sense exist at the consent of the governed. As such they are servants rather than masters and should respond to the broad interests of society, within the limits of their capacity to perceive both needs and constraints and to organize resources efficiently so as to accomplish their task at minimum social and economic cost. In 1774 Thomas Jefferson wrote his Summary View of the conditions in which he saw the British North American colonies. He pointed to inconsistencies between the nature of that colonial government, its economic policies (particularly taxation), and the demands of many of the colonists for certain rights which they believed themselves to merit. Perhaps most important was a link between the authority to raise and spend tax revenues and voice in government. In Mexico similar demands have been made since the time of Independence, eloquent expressions of the rights of man. The formalization of social ideals of representative government appeared in the Constitutions of the United States and in the Mexican Constitution of 1917. Both of these documents appeared only after great popular movements which unseated those in authority at immense human sacrifice. Critics in this hemisphere and abroad have argued that those constitutions were hopelessly radical,

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naive, and unenforceable. In the new United States, slavery was allowed to flourish for almost another century and its abolition required a civil war more terrible than the war of Independence. Not until the 1950s did the Supreme Court effectively extend the protection of the Bill of Rights to all citizens, black and white. In Mexico the mandates of some of the articles of the Constitution of 1917 have been difficult to implement as well. Yet one of the striking features of contemporary Mexico is the continuing idealism of a broad spectrum of its citizens. Against the dark panorama of totalitarian control of government that spreads around the world, against that of its own history, and/or the overshadowing giant to the north which is struggling with the conflicts among its own ideals, technology, wealth, and vested interests, the Jeffersons of Mexico continue to raise their voices.

This is encouraging. The questions as to which social interests should predominate, how they should be communicated from the governed to the governors, and what capacity the latter have to respond effectively remain to be answered. But one important dimension of the problem is the degree of freedom within which changes which may be needed can in fact be made. The economic dimensions of government policy space change with internal cycles, trends, and structural transformation of the economy; they also change in response to the conditions of international trade, migration, finance, and the receptivity of powerful trading partners to policies which affect their perceived interests.

The objective economic conditions which are seen to constrain policy makers are measured by the level and composition of output, its value and distribution, the dimensions of foreign trade and finance, and the stock of resources, both physical and human, available for future production and the distribution of ownership and control of those resources. (the national wealth). These factors are generally mapped by economists. The ability to relate scarce resources to limitless needs, within a feasible framework of technology and administration, is also determined at least in part by economists. In this respect one would think that economists would wield immense power, whether or not they wished to, since they circumscribe the economic degrees of policy space and attempt to ascertain the costs and likely consequences of alternative policies.

Yet neither in Mexico nor in the United States have economists customarily been entrusted with significant political power, either in matters of domestic or foreign policy. Perhaps this is in part attributable to the limitations of their discipline, since in an attempt to purify the analysis and maximize its alleged objectivity from social philosophy, they have excised the political and social dimensions of their models. Where they have been given great power, as in contemporary Chile and Brazil, their unidimensional models have been implemented subject to extreme political repression against any social groups which may object to their consequences. Cures are attempted as though the society were a drug addict in a straight jacket, forced to endure anguish for its own good, even at the expense of hunger, prison, and silence in the face of outraged dignity. Can economists go beyond the simple models which place them in such embarrassing positions, yet without imposing on society other drastic transformations which are equally unacceptable to large numbers of people in the name of "historical inevitability?" Mexico offers a unique opportunity, for its size, its actual and potential wealth, and its ideals, to effect a major transformation of its economy and society within our lifetime without bloody revolution, foreign intervention, or the imposition of a police state. The reasons for this in terms of the economic dimensions of policy space are introduced below. They are presented very briefly, as a basis for discussion and debate.

*John Meier's notes on the role of economists in policy making*

3. How economists can map the dimensions of policy space. Economists can greatly expand their usefulness to social architects by the way in which they map the objective conditions of the production and distribution system. The conventional structural (macro economic) models of economic systems customarily confine themselves to high levels of aggregation and the use of national averages for the variables and their respective parameters. Rarely do such models offer a breakdown among regions or significant social groups such that the consequences of alternative expansion paths for these regions or groups can be effectively estimated or traced historically. Even less frequently are macro models of the production and distribution system linked to models of the financial system, such that flows of goods and services can be shown to be the counterpart of offsetting financial flows, and so that accumulation of physical assets (and human capital) can be seen in relation to the accumulation of financial assets and liabilities. While such an integrated social accounting approach to real and financial development analysis has only recently begun to become possible in a form sufficiently simple to permit its implementation in a number of developing countries, it is now feasible. Experiments in the OAS Capital Markets Program (for Brazil, Colombia, Peru, Costa Rica, and Jamaica), while relatively primitive and partial in their initial approaches, suggest that much can be done along this line to relate real production of goods and services to the distribution of income and the accumulation of wealth, and to show how the financial and monetary system plays a key role in the process, together with fiscal and price policies and other regulatory measures. Similarly economists at Warwick University, the IERD, and in individual countries of the developing world are experimenting with integrated social accounting methods as a basis for the evaluation of development policies. In Mexico such research has had a long and respected tradition, beginning with the now-classic work of the joint Mexican/IERD team in the 1950s (IERD, 1953), and continuing with the work in the Department of Economic Studies of the Bank of Mexico, CEPAL's Mexico City office, and more recently the Secretary of the Presidency. However the present situation of integrated social accounting analysis of the Mexican economy is in apparent limbo. Financial accounts to integrate the financial sector and permit its incorporation into a standard social accounting framework for policy related analysis have yet to be attempted. The IERD macro-model of the Mexican economy does represent an attempt to integrate the production, trade, employment, and investment process, but it does not include the financial sector nor does it relate to a systematic social accounting framework which would permit the results to be used to determine the impact of policies on a wide variety of regions or social groups (Goreux and Manne, 73). The submodel of the agricultural sector, CHAC, does offer somewhat more regional disaggregation, but it too is sharply limited in that it does not accommodate the poorest agricultural activities or regions or the financial dimensions of the agricultural sector (Bassoco and Norton, 1974).

There is a need to return to first principles in analyzing structure, growth and distribution of the economy. The real and financial sectors should be related to each other and to the accumulation process so that the social consequences of wealth distribution can be determined in relation to alternative expansion paths. In this way the social demands for participation in the fruits of development can be associated with the actual performance of the system. It is here that international technical assistance, such as the UNDP, the

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IIRD, the IADB, and even bilateral programs can provide, can be used to broaden the analysis of economic growth and structural change and to draw the social consequences of alternative policies at the macro, regional, and project levels. This work should not second-guess policy makers by making normative judgements or recommendations. Rather it could allow both the governors and the governed to examine the likely consequences of a variety of public policies over the short, medium, and long-run, and to determine the dimensions of policy space within which they could be implemented. Recommendations for institutional changes necessary for the implementation of certain policies would also fall within the purview of the medium and long-run analysis. Much work of this kind is already in progress, so this section really represents a call for more of the same with perhaps greater attention to a wider variety of policies and/ <sup>to a more comprehensive</sup> study of their impact on the poorest sectors, regions, and income groups than has hitherto been possible. \*

4. Recent trends in growth. The economy and society of Mexico have always tended to evolve at different rates, in some periods economic change outstripping social evolution and at other times attempts at social change going beyond the capacity of the economic resources at the disposal of reform governments. The disparate forces of these two major dimensions of the social system have acted upon each other like great geological plates of the earth's crust, causing stresses, tensions, and occasional fractures. In periods such as the Porfiriato, rapid but unbalanced economic growth exacerbated the stresses <sup>(1967)</sup> in the social strata. After the Revolution scholars such as Wilkie have pointed to gaps between the rhetoric of reform and its implementation, suggesting that times of rapid growth are those which best-provide the revenues essential for improvements in social infrastructure as well as the access which the poor need to higher productivity occupations with their commensurately higher incomes. Political economists such as Roger Hansen, also viewing Mexico from abroad, deal with the need for economic growth to permit degrees of freedom for social programs (Hansen, 1971). Others closer to the Mexican scene such as Solis (1970), Ibarra (Navarrete, 1970) and other economists are skeptical that rapid growth alone, without a major redirection and intensification of political will for social participation at a cost to the middle and upper income groups, will not begin to accomplish the needed structural changes by which the mass of the rural and urban poor can experience major improvements in living levels within their own lifetime. Arnaldo Córdoba, in his penetrating social history of public policy in Mexico (focusing on the Cárdenas period), also emphasizes the need for major efforts of political will if reforms are in fact to occur. But all would doubtless concur that <sup>(1972)</sup> without the appropriate degrees of economic freedom, resource constraints would severely handicap the implementation of such reforms, and opposition of the disaffected groups (especially among the middle and upper income groups and the administrative, economic, and financial elite) would eventually place great pressures on the security forces to counter the reformist trends. This would lead to danger that the United States, threatened by instability immediately below its border, would intervene as well.

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\*It might well be said that the United States has not sufficiently engaged in such structural analysis of its own economy and society. There is no work which adequately integrates the real and financial sectors in a way which would permit the impact of alternative macro policies on accumulation of wealth to be satisfactorily estimated. Here work on Mexico might be regarded as prototypically pioneering.

Table 1

Growth Rates of the Economy

(compound annual rates of growth of output  
in constant 1960 pesos)

	Porfirato 1900/10	Revolut. 1910/25	/Reform 1925/40	Development 1940/50	1950/60	1960/65	Post 1965 1965/70	1970/74
1. Gross Domestic Product	3.3	2.5	1.6	6.7	6.1	(6.1)	6.7	5.9
2. Population	1.1	0.1	1.6	2.8	3.1	(3.4)	-----	(3.2 - 3.4)
3. Per capita Product	2.2	2.4	0.0	3.9	3.0	(2.7)	(3.5)	(2.7)
4. Agricultural Production	1.0	0.1	2.7	5.8	4.3	(4.3)	2.7	1.4
5. Manufacturing Production	3.6	1.7	4.3	8.1	7.3	(8.1)	8.3	6.2
6. Mining and Petroleum Production	7.2	5.6	-1.9	2.5	5.3	(4.2)	7.9	9.1

Source: 1900/65 Reynolds (1970) Table 1.4; 1965/75 Anuarios Estad., Banco de Mex., IX Censo General de Pobl. 1970, Resumen General, 1972, and Hicks (1974).

based on GDP estimates

Growth rates in Anuarios Estad. for 1960/65 are slightly different from those presented above (ag'l 4.6, mfg 8.8, mining and petrol. 6.8, GDP 6.9) and are based on data presented in Reynolds op. cit. transl. into Span., El Fondo de Cultura Econ., 1972.

The figures above indicate that growth as conventionally defined slowed down somewhat after 1970, though the effect on per capita product was not so severe as would have occurred had the rate of population continued to accelerate. Indeed there is some evidence that the crude rate of fertility may have declined somewhat, and with it the crude rate of population growth, from the 1950s to the 1970s (Hicks, 1974; Seiver, 1976). Mexico's growth was much more impressive in the last nine years, if one sees it in relation to that of the United States, Western Europe, or the majority of developing countries. The growth process clearly evidences a bias in favor of manufacturing and extractive industries versus agriculture. This is important for the distribution of benefits from growth, since the rural sector is lagging badly behind in terms of output growth, at least insofar as its agricultural production is concerned. But as we shall see in section 5 below, the rural labor force reportedly declined from 1960 to 1970. (The censuses of 1960 and 1970 were taken in June and January respectively, and since the population customarily employed in agriculture varies seasonally and is greater in June, this may account for part of the decline. No reliable adjustment of the 1970 census data has, however, been made at least to my knowledge.) The effect of the combined slower rate of output growth and absolute decline in labor employed in agriculture caused output per worker in agriculture to grow more rapidly than in manufacturing (5.4% per annum cf. 5.2%; the growth rate in services over the same decade 1960/70 was 1.8%).

5. Recent trends in structural transformation and productivity of labor.  
In my earlier study I mapped the proximate sources of productivity growth of output per worker (crude labor productivity measures) for the decades of the 1940s and 1950s. (Reynolds, 1970, Tables 2.5 and 2.6) It is now possible with the census data on labor force for 1970 and the Banco de Mexico national product estimates by production sector to show how the trend in output and employment by major sectors continued in the 1960s. This is extremely important as a guide to the factors contributing to changes in labor productivity in the economy, resulting from a combination of (1) productivity growth within given sectors and (2) shifts in labor from lower to higher productivity sectors. The results are shown below. (Note that the figures for absolute changes from 1960 to 1970, measured in 1950 pesos, are based on later estimates of 1960 output than those used in the original publication. The revised Banco de Mexico GDP figures for 1960 in current pesos show a 3% lower total GDP, 8% lower agriculture value added, 10% lower manufacturing value added, and 2% higher services and other figure.)

Table 2  
Output per Employed Worker by Sector

	1960	1970	Annual rate gth
<b>Agriculture:</b>			
Output (millions of 1950 pesos)	11,433	16,473	3.7
Labor force (000)	6,086	5,103	- 1.8 *
Output per worker (1950 pesos)	1,879	3,228	5.4
<b>Manufacturing, mining, pet., elect., construct.</b>			
Output	20,956	48,727	8.4
Labor force	2,141	2,973	3.3
Output per worker	9,788	16,390	5.2
<b>Services and all others:</b>			
Output	39,404	76,278	6.6
Labor force	3,027	4,879	4.8
Output per worker	13,018	15,634	1.8
<b>Gross Domestic Product</b>			
Output (millions of '50 pesos)	71,794	141,478	6.8
Labor force (000's)	11,253	12,955	1.4
Output per worker	6,380	10,921	5.4

The figures in this table indicate significant growth in output per worker in Mexico, attributable apparently to shifts of labor from low productivity sectors (agriculture primarily) into higher productivity sectors. While these aggregates are only averages and blur over the immense differences in productivity within given sectors and among regions and establishments, they do indicate that the slow growth in output of the rural sector (agriculture used as a proxy) has had a commensurate release of low productivity labor for employment in urban areas and as emigrants to the United States, both legal and illegal.

The internal terms of trade (relative price trends) among major sectors of the economy show no sharp distortions for agricultural products as one can observe from the following indexes of prices (GDP deflators):

Table 3  
Price indexes (1960 = 100)

All prices (GDP deflator)	1960	1970	1974p
	100	141	217
Agricultural prices	100	137	214
Mining	100	197	276
Petrol.	100	105	147
Food, bev. tobacco mfrs.	100	128	225
Textiles	100	210	313
Chemicals	100	99	142
Basic metals	100	110	170
Construction	100	158	285
Services	100	167	247

Source: Informes Anual, B de M, 1973, 74.

Table 4

Sectoral and shift factors underlying growth in Output per Worker 1940/70

(1950 pesos)

	1940/50 total	1950/60 total	1960/70	
			%	%
(1) Actual average growth in output per worker (1950 pesos)	1,267	100	1,640	100
Estimated change in productivity with no shift in labor force:			4,541	100
$\Delta A_a$	354	47	226	18
$\Delta M_m$	56	8	327	26
$\Delta S_s$	339	45	695	56
(2) Total prod'y growth	749	100	2,688	100
Share of change in average output per worker attributable to the shift factor (1) - (2) = (3)	41		24	41
(4) Share attributable to prod'y growth	59		76	59
	$\frac{(2)}{(1)} = (4)$			

Source: For 1940s and 1950s, Reynolds, 1970, Tables 2.5 and 2.6. For 1960s,

author's calculations.  $\Delta A_a, \Delta M_m, \Delta S_s$  = change in output per worker in agric., m., services.  $a, m, s$  = share of work force in each sector in base year.

Table 4 shows that in the 1960s productivity growth, as a contribution to increases in per capita output of the work force, fell sharply, in comparison with the 1950s. The service sector revealed rises in output per worker during the 1950s which transmitted themselves to national aggregates via a major expansion in the share of that sector in employment (from 22 to 26% of the work force were in services from 1940 to 1950. By 1960 the share was 27%. In addition output per worker had grown in that sector by the largest amount of any of the three sectors from 1950 to 1960, or 2,703 pesos. In the 1960s the share of the service sector in employment rose dramatically, far more than ever before in history, from 27 to 38% of total workers. The contribution of this sector to total growth in productivity, however, was only 26% (see Table 4) in the 1960s, compared to 56 and 45% respectively in the 1950s and 1940s. Why? Because the changes in output per worker ( $\Delta A$ ,  $\Delta M$ ,  $\Delta S$ ) in 1950 pesos were as follows:

Table 5  
changes in output  
per worker in 1960s (1950 pesos)

agriculture $\Delta A$	1349
manufacturing $\Delta M$	6602
services $\Delta S$	2616
total	4541

changes in output  
per worker in 1950s (1950 pesos)

agricul. $\Delta A$	387
manufact. $\Delta M$	2040
services $\Delta S$	2703
total	1640

changes in output  
per worker in 1940s (1950 pesos)

agricul. $\Delta A$	541
manufact. $\Delta M$	440
services $\Delta S$	339
total	1267

Sources:  
op. cit.

What does this picture suggest? The structure of the Mexican economy is drastically altering, from a rural to an urban economy in terms of both employment and output, and in a way in which average output per worker in services is rising despite the major absorption of workers into tertiary activities. The productivity growth in manufacturing which has risen steadily since the 1940s has transmitted itself to the service sector as well, first slowly, then very rapidly in the 1950s, and then at a slightly slower pace in the 1960s. In each decade, and as much in the last as the first, the shift of labor from rural to urban activities was associated with a major transmittal of growth in output per worker to the economy as a whole. At first glance the evidence suggests that the economy is capable of accommodating

relatively rapid growth with structural change, that the essential link in this process is the tertiary sector, and that we understand very little about the nature of labor absorption, productivity growth, and the relationship between productivity per worker and wages in that sector. Indeed we also know very little about the functional distribution of income among wages, profits, and rent within the major sectors of the economy, much less among regions or by size of activity or production unit. This makes it hard to determine the social consequences of the changes underlying these structural aggregates. All they show is that there is much work to be done, of a basic kind, such as that of Solis, Trejo, and others, before it will be possible to draw reasonable relationships between general growth patterns, distribution, and social progress. One first step in this direction should be a major study of tertiary activities. A second should be to examine the consequences of the dramatic structural changes illustrated in these preliminary figures on labor participation. Kessing (1975) shows that labor participation rates had fallen drastically by 1970, a situation he associates not only with demographic factors but with the decline in employment opportunities for the mass of the population. The 1970 census provides ample opportunity to relate declared underemployment of the work force to other social and economic characteristics.

Another dimension of the structural change process is the movement of labor, not only from rural to urban occupations within Mexico but among regions of the country and from Mexico to the United States. Greenwood and Ladman (1975?) show the immense amount of mobility of labor that can be determined and analyzed from the wealth of data in the 1970 census. There is evidence, as well, that legal and particularly illegal migration of displaced Mexican workers, or those seeking much higher wages, to the United States. The number of illegal Mexican immigrants caught and returned to Mexico by the Immigration and Naturalization Service exceeded half a million/<sup>per year</sup> in recent years (conversations with the director of the INS, General Chapman, 1976) and the number of those not caught is reckoned to be as many or more, accounting for 70 to 80% or the million or so illegal immigrants joining the U.S. work force each year since the 1970s. This number corresponds in total stock of illegal immigrant workers to 70 or 80% of the unemployed in the U.S., or from 5 to 6 million workers. Without commenting on the costs or benefits to either the U.S. or Mexico of such massive movements of workers, the clear implications for Mexican unemployment and real wages must be positive. Thus when we look at the figures on construction costs, which have a high wage component, in the price series in Table 3, it is clear that construction unit values have risen much more rapidly than the general price index from 1960 to 1970 and by 80% from 1970 to 1974, while the general price index rose by 54%. What seems to be happening is that the structure of the Mexican economy is shifting in the direction of that of its neighbor to the north, with associated rises in real wages for those in the leading sectors and costs of migration, changing employment, changing types of jobs, and changing life styles for those in lagging sectors such as agriculture. During such periods immense pressures are placed upon governments to accommodate those changes through infrastructure, education, and through institutions which incorporate relocated persons into the "modern" economy and society. There must also be great flexibility to accept these institutions on the part of those who were previously dominant in the older institutions that are becoming obsolescent. The implications for the members of Mexico's "revolutionary family" are clear.

6. Some general comments: It is not possible in the scope of this paper to cover the many issues raised by its subject. Rather I have attempted to draw attention to several of the most prominent salients of structural change in recent Mexican experience, and to challenge the listener to pursue this type of analysis further. In summary some of the main points are as follows. Mexico's recent experience, despite stresses and strains, has been one of impressive growth. That growth has only been communicated to a broadening share of the population in the form of higher wages and better jobs through massive migration and relocation, from rural to urban areas and from job to job. In many cases this relocation has involved international immigration, the majority of it illegal, to the United States as the great gap in real wages for low skilled occupations continues to widen in absolute terms between the two countries. Across Mexico wage gaps also widen in absolute terms, as lagging regions such as those of the south and the Sierras fall further and further behind the rest of the country and particularly the major metropolitan areas. With the changes which this growth implies come pressures for reform in institutions, social, economic, and political. The growth itself provides the potential for tax revenues and voluntary financial flows to cover the costs of such reforms. What is needed is the political will to bring them about. This will implies a long run interpretation of self-interest of those in the middle and upper income groups who must shoulder a disproportionately large burden of the costs in the short and medium run. Whether or not they will rise to the challenge remains to be seen. The next administration will have no choice but to make the attempt to bring about massive fiscal and financial reforms. It cannot do this without the willing cooperation of important, progressive, and informed segments of the business, financial, labor union, and academic community, as well as middle class organizations, clubs, and religious groups. What is suggested is a kind of "new deal" (nuevo tratado) for Mexico which, recognizing its greatness, both actual and potential, in men and materials, and in revolutionary aspirations for social progress, can galvanize the imagination of large segments of the nation. This will also require an understanding and indeed sympathetic attitude on the part of the U.S. government, and the economic and social institutions which play such an important role in its foreign policy. That kind of spirit motivated earlier Ambassadors such as Josephus Daniels, old crony of FDR, who during the days of the U.S. New Deal was able to pursue policies favorable to Cardenas' Mexico even against his superiors in the State Department, Treasury, and elsewhere in the U.S. government. This question must await the next U.S. administration, to determine whether external political degrees of freedom could exist to complement those within Mexico. The writer of these remarks cannot but believe in the competence of both countries, even in these most difficult times, to provide pragmatic leadership whose ideals reflect those of Jefferson and Juarez, FDR and Cardenas: belief in the rights of man and <sup>the</sup> immense potential of the mass of the population when given the tools of knowledge and economic resources in a climate of social freedom and equality.

*Min. for a semi-structured dialogue w/ the U.S. in the 30's.*

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